

DIRECT TAXES IN SLOVAKIA AND THEIR IMPACT ON ECONOMY OF COMPANIES OPERATING IN AGRICULTURE AND FOOD PRODUCING INDUSTRY

Norbert Gyurián⁽¹⁾, Angelika Kútna⁽²⁾

⁽¹⁾ Selye J. University, Faculty of Economics, Department of Management

⁽²⁾ Financial Directorate of Slovak Republic, Tax Office in Nitra

E-mail: ⁽¹⁾gyurian.norbert@ujss.sk, ngyurian@gmail.com,

⁽²⁾angelika.kutna@financnasprava.sk

Abstract

Nowadays are Taxes a Key Amount of Income of each Country's Budget. Taxes are compulsory Payments determined by State, which Taxpayers have to pay according to predetermined Conditions. Article is focused on the Impact of Taxes on Legal entities, which are Companies operating in Agriculture and Food Producing Industry. Defined Goal of the Paper is to assess the Impact of selected direct Taxes on Economy of these Companies. The Companies have selected according to specified Criteria. We assess Initial Data gathered directly from assessed Companies during the Examination of selected matter. Primary Source of Data are Financial Statements and Tax Returns of selected Companies. We assess Period of 2008-2012. The Analysis is based on the given Terms by the Law for settling of the assessed Taxes. The Attention is also paid to Other Economic Indicators, which are reported in the Income Statement in the Slovak Republic.

Keywords: Corporate Income Tax, Local Taxes, Financial Statements, Business Entities

JEL classification: G3

Introduction

Tax can be defined as compulsory, non-returnable, law intended Payment to Public Budget. It is non-purpose and non-equivalent Payment. Tax is regularly repeated at Time Intervals, or is irregular and is payable in certain Circumstances.¹

At present, Taxes as Income of the State or other Local Budgets, have Irreplaceable Role in the financing of Public Goals. The right to collect Taxes was Sovereign Right of each Country in the distant past, and nowadays it is seen as one of the Symbols of National Sovereignty.²

Taxation has existed since the Birth of early Civilisations, and it could be said that it is Part of the Price to be paid for Living in an organised Society. However, Taxation is not just a Mean of transferring Money to the Government, to spend it as it thinks fit. It also has a tendency to reflect prevailing Social Values and Priorities. In this Respect it could be argued that a System of Taxation is a Socioeconomic Model, representing Society's Social, political and economic Needs at any Time; Changes in these Need to be often reflected by Changes to the System of Taxation.³

¹Kubátová, K. *Daňová teorie a politika*. 2010.

²Szarowska, I. *Harmonizace základu daně z příjmu právnických osob a její vliv na velikost daňového zatížení*. 2009.

³Nightingale, K. *Taxation: Theory and practice*. 2002.

The affecting economic Growth effects of Tax System arise from the Fact, that Tax Liability is distracting the Decisions of Taxpayers.⁴ By reducing the Taxes on the Benefits of certain economic Activities, may be less than optimal Labour Supply and Labour Demand, Investment or Consumption, and therefore fewer will be the Total Amount of produced Goods and Services.⁵

The Literature is dealing with Public Finance and Taxation System in the strict Sense, essentially described in a similar manner as the Tax System. The Differences are up to the Sequence in thinner or wider Interpretation of the Term.⁶

Tax System should have five Basic Attributes: the Tax System should be economically effective, simple and low-cost, flexible, adapted to the Size of socially acceptable Public Expenditure and fair.⁷

It should be note, that there are Differences among National Tax Systems. Taxation Conditions are constantly changing and are adapted to the Conditions of National Economy and the Economic Goals of the State Government.

The Concept of Tax can be defined according to several Aspects, such as legal or financial-economic. Definitions of Taxes in Legal Terms are representing the external Character Description of the Concept, according to which the Tax is mandatory, non-refundable, non-equivalent and non-specific Financial Payment to the Public Budget and according to predetermined Rules. The second Aspect is the financial and economic, which expresses the content Side of the Concept of Tax. Based on this point of view a Tax is Fiscal Relationship between Taxpayers and the Public Budget.⁸

National Budgets are an important Regulation Tool of National Economies. State Budget Revenues consist primarily of Tax Revenues, by which State ensures the Performance of its Basic Functions. Taxes are Compulsory Payments determined by State, which Taxpayers have to pay to the State Budget in a specific amount and in predetermined Due Date. Currently prevailing Trend of Fulfilling the State Budget Revenues primarily from Indirect Taxes, i.e. through Value Added Tax and Selective Excise Taxes.⁹

Material and methods

The Main Goal of this Paper is assessing the Impact of Direct Taxes on the Economy of selected Companies, which are operating in Agriculture and Food Producing Industry. Our Attention is given to Corporate Income Tax and Other Direct Taxes. We have chosen the Sample of Companies according to the following Criteria:

- Assessed Companies operate in Primary Agricultural Production or in the Food Industry,
- They are composed for Profit,
- They activate in the Nitra Region.

⁴Csómos, B. – P. Kiss, G. *Az adószervezet átalakulása Magyarországon 2010-től*. 2014.

⁵Krekó, J. – P. Kiss, G. *Adóelkerülés és adóváltozások Magyarországon*. 2008.

⁶Bánfi, T. *Igazságos adó(rendszer) vagy etikus adózó?* 2014.

⁷Stiglitz, J. E. *A kormányzati szektor gazdaságtana*. 2000.

⁸Bojňanský, J. a kol. *Dane podnikateľských subjektov*. 2013.

⁹Sopková E. – Raškovská, K. *Daňové úniky v oblasti dane z pridanej hodnoty v podmienkach Slovenskej republiky*. 2013.

The Base Material of Research is Data from the following Sources:

- Tax Legislation of Slovak Republic – Tax Laws and Regulations,
- Statistical Data from the Portal of the Tax Directorate of the Slovak Republic,
- Data from Financial Statements – Balance Sheet in full to XII.31. of the Respective Calendar Year (Type of Balance Sheet: Úč POD1-01),
- Data from Financial Statements – Income Statement in full to XII.31. of the Respective Calendar Year (Type of Income Statement: Úč POD2-01),
- Data from Tax Returns filed for Corporate Income Tax.

There are used Basic Research Methods during the Data Processing, like as Analysis, Synthesis and Comparison. Data are averaged using a Weighted Average. Companies are assessed in five successive main Years, in the period 2008-2012. In total there are assessed 30 Companies, including 19 Agricultural Companies and 11 Food Producing Companies.

In Term of Methodological Approach, assessed Companies are firstly assessed in general. In this case, the Analysis focuses on the Assessment of Volume and Structure of:

- Assets and Resources of assessed Companies,
- Cost and Benefits of assessed Companies.

The Attention is also paid to other economic Items reported in the Income Statement. The Economic Result is also assessing selected Companies at different levels according to their Financial Reporting:

- Economic Result on Ordinary Activities and
- Overall Economic Result of the year.

Both Levels of Economic Result are assessed before and after Tax. Our Attention is not increased on Economic Result on Extraordinary Activities, because the Income from these Activities was very low.

It is important to pay Attention on Corporate Income Tax. The Impact of this Tax is assessing on the Economy of Companies by Ratio Indicators at which Tax is assessed as the Share of Corporation Tax on the Total Cost. In the next Step, we pay our Attention to "Taxes and Fees", which is reported Item in the Income Statement. That Item encompasses:

- Road Tax,
- Property Tax,
- Other Taxes and Fees.

We failed to obtain more analytical Data on these Taxes, therefore we assessed them only in Synthetic Level.

Results and discussion

The Tax Burden is one of the Factors, which are influencing the Economy of Business Entities. It is very important to pay Attention to it therefore. In term of Methodological Approach, there are firstly considered General Indicators. We consider the Volume and the Basic Structure of Assets of assessed Companies in the first step.

Table 1: The Development of the Average Amount of Assets of assessed Agricultural Companies in 2008-2012 (in €)

Items of Balance Sheet	2008	2009	2010	2011	2012	Index 12/08
Total assets	2933555	3154952	3035425	3188545	3091695	1.05
Non-current assets	1873347	1919534	1850088	1796365	1769628	0.94
Current assets	1060208	1235419	1185337	1392180	1322068	1.25

Source: Own Processing

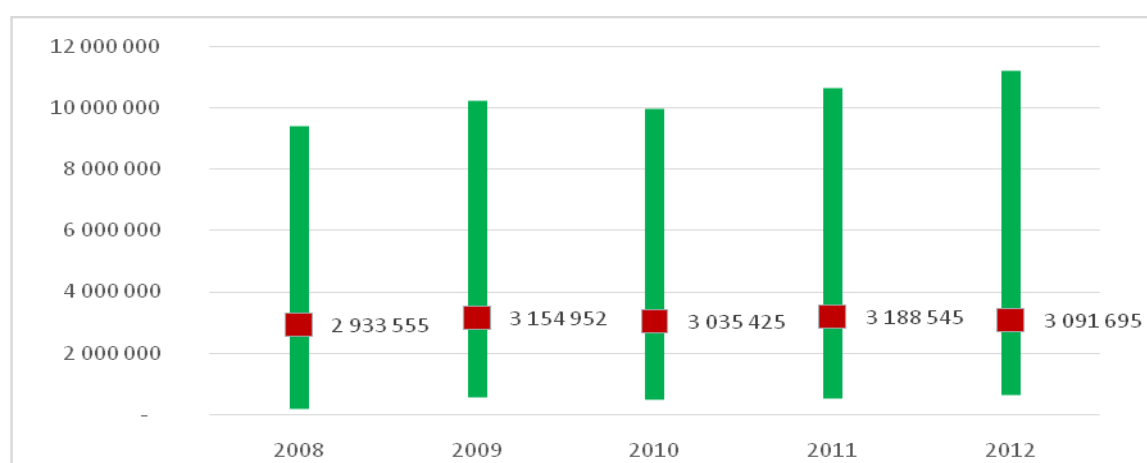
We can see significant Difference in the Amount of used Assets between Agricultural- and Food Producing Companies in Table 1 and Table 2. In the case of Agricultural Companies are captured lower Values by nearly half as for Food Producing Companies. There was a slight increase in the Value of Total Assets in case of Agricultural Companies during the Period. It should be noted, that this increase supported increased Value of Current Assets.

Table 2: The Development of the Average Amount of Assets of assessed Food Producing Companies in 2008-2012 (in €)

Items of Balance Sheet	2008	2009	2010	2011	2012	Index 12/08
Total assets	5650894	5480976	5579775	5755326	6031471	1.07
Non-current assets	3306642	3387049	3177993	3142529	3403422	1.03
Current assets	2344252	2093927	2401782	2612797	2628049	1.12

Source: Own Processing

The highest Value of Total Assets for Agricultural Companies was recorded in the Amount of 11212696 € in 2012 and the lowest Value of 157216 € in 2008. It follows, that prevail significant Differences between Sizes of analysed Companies. The Layout of assessed Value for Assets of Agricultural Companies is shown in Figure 1.

**Figure 1.: Box Plot of the first type of the Value of Total Assets of assessed Agricultural Companies in 2008-2012 (in €)**

Source: Own Processing

The Development of Values of Food Producing Companies is similar like Agricultural Companies. This Increase was caused not only by Increase of Fixed Assets. Layout of values of Assets of Food Producing Companies is shown in the Figure 2.

The highest Value of Total Assets of Food Producing Companies was recorded in 2012 in the Amount of 17985817 €. This Value is significantly higher than the Average Value.

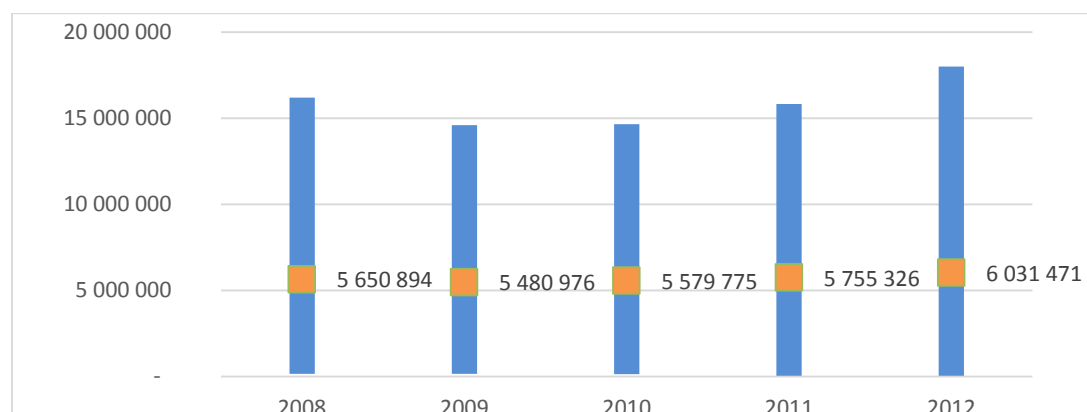


Figure 2.: Box Plot of the First Type of the Value of Total Assets of assessed Food Producing Companies in 2008-2012 (in €)

Source: Own Processing

We consider the Structure of Resources of the selected Companies in the Next Step. The Development of Internal and External Resources is shown on Figure 3. As it follows from the Figure, the Business Assets are financed mainly from Own Resources of assessed Companies.

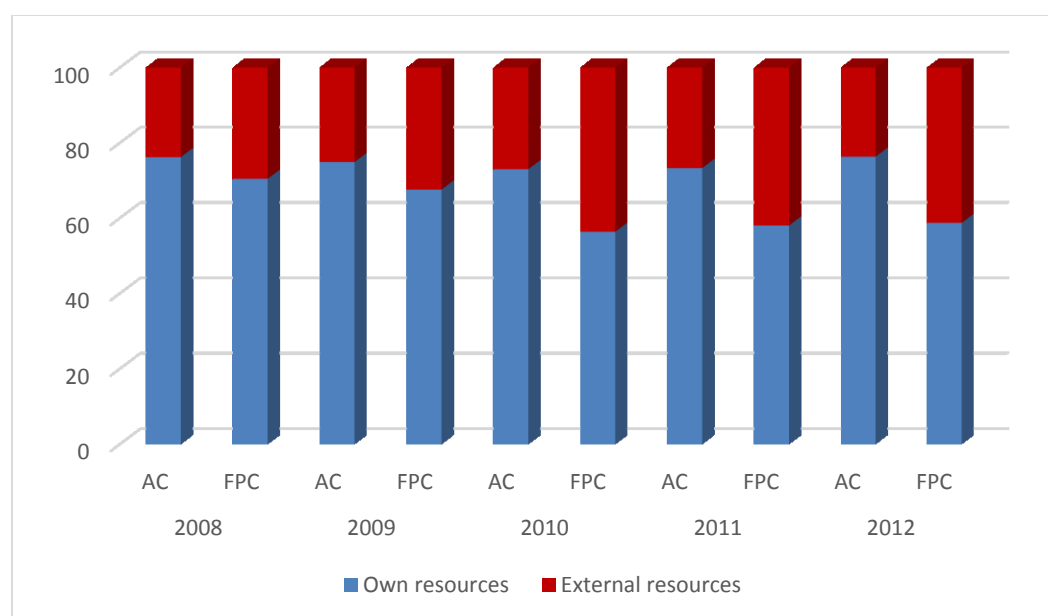


Figure 3.: The Development of Structure of Resources of assessed Agricultural Companies and Food Producing Companies in 2008-2012 (in €)

AC – Agricultural Companies, FPC – Food Producing Companies

Source: Own Processing

We assess the Value of Profit of selected Companies in relation to the Amount and Structure of their Assets. This Indicator present quantified Economic Result of Activity of Companies according to Accounting Regulations. Economic Result is recognized on several Levels in Slovakia. Our Attention is devoted to the Economic Results of Current Operations and Economic Results of Overall Activities of the Accounting Period. Both Indicators are assessed before and after tax. The Values of this Indicator of Agricultural Companies are recorded in Table 3.

Table 3.: The Development of Economic Result of Agricultural Companies in 2008-2012 (in €)

	2008	2009	2010	2011	2012
Economic Result of Current Operations					
Before Tax	15088	-169524	-17377	232940	78772
After Tax	-4053	-172359	-13058	196307	62253
Economic Result of Overall Activities of the Accounting Period					
Before Tax	19116	-158370	945	235246	100962
After Tax	-125	-161258	-22687	198614	86102

Source: Own Processing

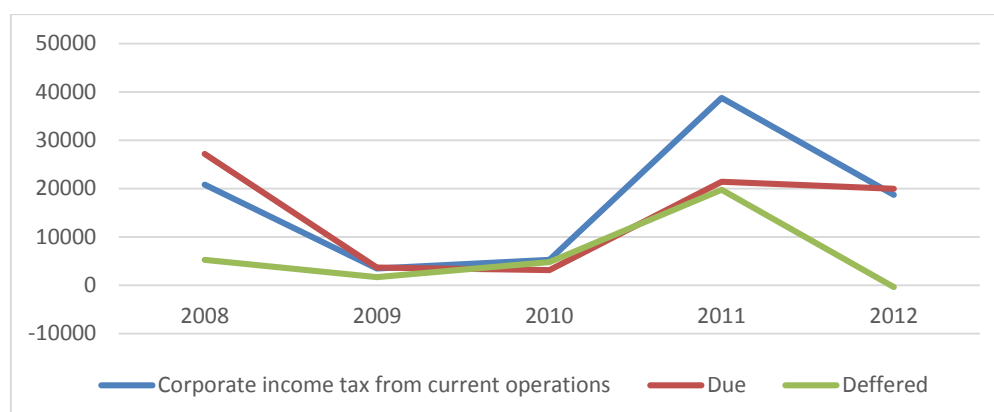
The Agricultural Companies achieved often negative Economic Result, as is reflected in Table 3. It can be seen from the above, that Companies operate in not the best economic Environment. It is mainly influenced by poor Opportunities to sell their Production. Natural Conditions in addition Influence negatively on them.

Table 4.: The Development of Economic Result of Food Producing Companies in 2008-2012 (in €)

	2008	2009	2010	2011	2012
Economic Result of Current Operations					
Before Tax	5665	-508993	79132	404176	424354
After Tax	-7770	-510726	93334	348625	375145
Economic Result of Overall Activities of the Accounting Period					
Before Tax	8255	-507630	40065	408686	426476
After Tax	-5231	-509363	54449	353117	377272

Source: Own Processing

We assess Food Producing Companies on Table 4. For those Companies can be reported better Results, which significantly impact to their Final Tax Burden.

**Figure 4.: The Development of Average Values of Corporate Income Tax of Current Operation of Agricultural Companies in 2008-2012 (in €)**

Source: Own Processing

The Development of the Average Values of Income Tax of Current Operation of Agricultural Companies was very volatile during the Period. The lowest Value was recorded in 2009 in the amount of 3430€ and the highest in 2011 in the amount of 38778€. The fact of Achievement of Incurred Loss is highly influencing Values of this Indicator, because those Companies had no Tax Liability.

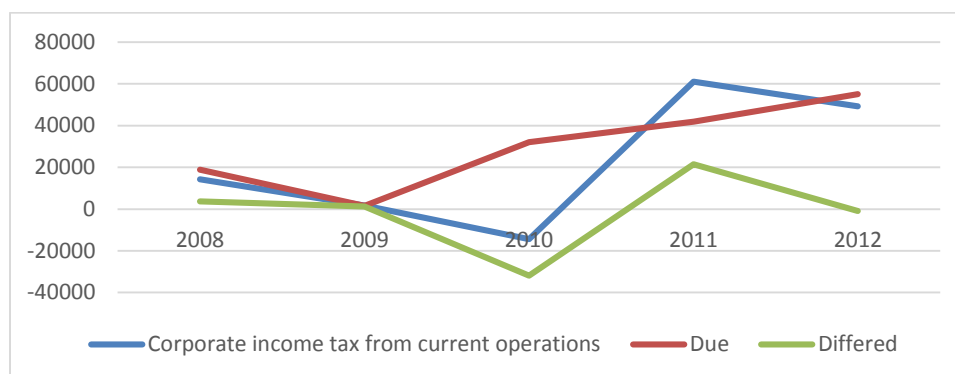


Figure 5.: The Development of Average Values of Corporate Income Tax of Current Operations of Food Producing Companies in 2008-2012 (in €)

Source: Own Processing

The Average Values of the Indicator considered for Food Producing Companies are also very variable. The highest Average Value was reached in 2011 in the Amount of 61106 € and the lowest in 2010 in the Total Amount -14384 €. At Due Tax are recorded positive Values in each Year of the Reporting Period.

Table 5.: The Development of the Total Cost assessed Companies for the Period 2008-2012 (in €)

	2008	2009	2010	2011	2012	Index 12/08
Agricultural Companies	2009744	1945954	1876701	2075325	2135400	1.06
Food Producing Companies	4036125	3673789	3808486	4116085	5075002	1.26

Source: Own Processing

Table 5 contains Data of the Average Values of the Total Cost of assessed Companies. There are recorded significantly higher Values for Food Producing Companies. The Value of this Indicator represents the Size of their Production Capacity. We assess Corporate Income Tax and Item Other Taxes and Fees in relation to the Total Cost, which individual Companies were obliged to pay to Public Budgets.

Table 6.: The development of the Amount of Corporate Income Tax of Current Operations and its Share on the Total Cost of assessed Companies in 2008-2012 (in %)

	2008	2009	2010	2011	2012
<i>Agriculture Companies</i>					
Value of Indicator	20835	3430	5211	38778	18671
Share of Indicator on the Total Cost	1.04	0.18	0.28	1.87	0.88
<i>Food Producing Companies</i>					
Value of Indicator	14254	1734	-14384	61107	49203
Share of Indicator on the Total Cost	0.35	0.05	-0.38	1.49	0.97

Source: Own Processing

The Share of Corporate Income Tax of Current Operations on the Total Cost is within the Range from 0.18% to 1.87% in case of Agricultural Companies and in case of Food Producing Companies from 0.05% to 1.49%. The Value of the Indicator is a negative Amount in 2010, which is caused by a negative Value of Corporate Income Tax.

Our Attention is given to Item "taxes and fees" of Income Statement in the Last Step. We assess it in Synthetic Level in similar manner as at Corporate Income Tax.

Table 7.: The Development of the Amount of Taxes and Fees and its Share on the Total Cost of assessed Companies in 2008-2012 (in %)

	2008	2009	2010	2011	2012
<i>Agricultural Companies</i>					
Value of Indicator	45809	50106	49768	49890	50964
Share of Indicator on the Total Cost	2.28	2.58	2.65	2.40	2.39
<i>Food Producing Companies</i>					
Value of Indicator	82715	84629	78517	83784	86708
Share of Indicator on the Total Cost	2.05	2.30	2.06	2.04	1.71

Source: Own Processing

Taxes and Fees are higher as Cost of Corporate Income Tax in case of assessed Companies, as is shown in Table 7. When we compare the Values of assessed Companies, it can be concluded, that the Other Taxes and Fees had a higher Share of the Cost in case of Agricultural Companies. This fact prevails in each Year of the assessed Period.

CONCLUSION

The assessed Tax Impact has its own Peculiarities in each Sector of the Economy in every Country. We assessed the Agricultural Companies and Food Producing Companies in our Research. Our Objective was to assess the Economy of selected Companies in relation to Taxes. The Attention was paid to Corporate Income Tax and Other Direct Taxes. We can deduce the following conclusions from our Analysis:

- Biological Nature of Primary Agricultural Production significantly impact on the Economic Performance of Companies, which is reflected in their resulting Tax Liability;
- The Food Industry is more significantly affected by Economic Fluctuations than Primary Agricultural Production;
- Income Tax is one of the most important Taxes of each Tax System. Nevertheless, in the case of assessed Companies, Other Direct Taxes amounted higher Share of the Total Cost. In case of Agricultural Companies is that caused by the Size of Area farmed by them.

References

1. Bánfi T. *Igazságos adó(rendszer) vagy etikus adózó?* In: Közgazdaság – Tudományos füzetek. Különszám az adópolitikáról. ISSN 1788-0696, 2014, Vol. 9, No. 4, p. 99-107.
2. Bojňanský, J. a kol. A. *Dane podnikateľských subjektov*. Nitra: Slovenská poľnohospodárska univerzita v Nitre. 2013. p. 215, ISBN 978-80-552-1114-5.
3. Csomós B. – P. Kiss G. *Az adószervezet átalakulása Magyarországon*. In: Közgazdaság – Tudományos füzetek. Különszám az adópolitikáról. ISSN 1788-0696, 2014, Vol. 9, No. 4, p. 61-80.

4. Krekó, J. – P. Kiss, G. *Adóelkerülés és adóváltozások Magyarországon*. In: MNB Szemle, 2008, p. 24-33.
5. Kubátová, K. *Daňová teorie a politika*. Praha: Wolters Kluwer, 2010, p. 275, ISBN 978-80-7357-574-8.
6. Nightingale, K. *Taxation: Theory and practice*. Gosport: Ashford Colour Press, Fourth edition, 2002, p. 660, ISBN 0273-65573-6.
7. Sopková, E. – Raškovská, K. *Daňové úniky v oblasti dane z pridanej hodnoty v podmienkach Slovenskej republiky*. In: Acta academica karviniensia, ISSN 1212-415X, 2013, Vol. 15, No. 1, p. 147-158.
8. Stiglitz, J. E. *A kormányzati szektor gazdaságtana*. Budapest: Közgazdasági és Jogi Könyvkiadó, 2000, p. 748, ISBN 963-224-560-1.
9. Szarowská, I. *Harmonizace základu daně z příjmu právnických osob a její vliv na velikost daňového zatížení*. In: Teoretické a praktické aspekty veřejných financí – Sborník z XIV. ročníku mezinárodní odborné konference Fakulty financí a účetnictví Vysoké školy ekonomické v Praze. Praha: Vysoká škola ekonomická, 2009. ISBN 978-80-245-1513-7.